This document is scheduled to be published in the
Federal Register on 10/21/2020 and available online at
federalregister.gov/d/2020-23260, and on **govinfo.gov**

8011-01p

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-90203; File No. SR-DTC-2020-012]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of

Proposed Rule Change to Adopt a New Service Guide to Establish the

ClaimConnect™ Service and Update the Settlement Service Guide

October 15, 2020.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and

Rule 19b-4 thereunder,[2] notice is hereby given that on October 8, 2020, The Depository

Trust Company ("DTC") filed with the Securities and Exchange Commission

("Commission") the proposed rule change as described in Items I, II and III below, which

Items have been prepared by the clearing agency. The Commission is publishing this

notice to solicit comments on the proposed rule change from interested persons.

I.   Clearing Agency's Statement of the Terms of Substance of the Proposed Rule
        Change

The proposed rule change[3] consists of amendments to (i) adopt a new DTC

service guide to establish the ClaimConnect service at DTC ("ClaimConnect Service

---

[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

[3]   Capitalized terms not defined herein are defined in the Rules, By-Laws and
        Organization Certificate of DTC ("Rules") available at
        http://www.dtcc.com/~/media/Files/Downloads/legal/rules/dtc_rules.pdf, or in the
        hereby proposed ClaimConnect Service Guide, included as Exhibit 5 to this
        proposed rule change filing.

Guide"),[4] and (ii) update the existing DTC Settlement Service Guide[5] ("Settlement

Guide") to (A) account for a new ClaimConnect process that would bypass DTC's

existing Receiver Authorized Delivery function ("RAD"), (B) make related clarifying

changes regarding RAD, and (C) update certain address and contact information in the

Copyright section of the Settlement Guide, as described in greater detail below.

II.   Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the
        Proposed Rule Change

In its filing with the Commission, the clearing agency included statements

concerning the purpose of and basis for the proposed rule change and discussed any

comments it received on the proposed rule change. The text of these statements may be

examined at the places specified in Item IV below. The clearing agency has prepared

summaries, set forth in sections A, B, and C below, of the most significant aspects of

such statements.

        (A)   Clearing Agency's Statement of the Purpose of, and Statutory Basis for,
                the Proposed Rule Change

                1.   Purpose

The purpose of the proposed rule change is to (i) adopt the ClaimConnect Service

Guide, and (ii) update the Settlement Guide to (A) account for a new ClaimConnect

process that would bypass RAD, (B) make related clarifying changes regarding RAD,

---

[4]   The hereby proposed ClaimConnect Service Guide sets forth Procedures for the
        proposed DTC ClaimConnect service. Procedures, in this context, pursuant to
        Section 1 of Rule 1, means "the Procedures, service guides, and regulations of
        [DTC] adopted pursuant to Rule 27, as amended from time to time." Rule 1,
        Section 1, supra note 3. The proposed ClaimConnect Service Guide would
        constitute a Procedure of DTC, as defined in the Rules.

[5]   Available at http://www.dtcc.com/~/media/Files/Downloads/legal/service-
        guides/Settlement.pdf.

and (C) update certain address and contact information in the Copyright section of the

Settlement Guide.

About ClaimConnect

The proposed ClaimConnect service will be an optional service available to all

Participants.[6] The service will enable Participants to bilaterally match and settle cash

claim transactions at DTC.

With respect to ClaimConnect, a cash claim or cash claim transaction is a cash

entitlement (i.e., a request for cash) from one Participant to another Participant.

Typically, cash claims arise as a result of trading exceptions from a Corporate Action

event,[7] where a cash entitlement needs to be delivered from one holder to another.

Today, such claims are settled away from DTC, except for some stock loan and

repurchase ("repo") substitution payments, which can be settled via Adjustment Payment

Orders ("APOs").[8] However, based on discussions with Participants, DTC has developed

---

[6]   A fee associated with Participants' use of the ClaimConnect service will be the
      subject of a separate, subsequent rule filing with the Commission.

[7]   Trading exceptions include, but are not limited to, trades outside of the market's
      agreed upon settlement cycle, lack of due bill fail tracking, stock loan or repo
      transaction discrepancy, or tax treaty differences.

[8]   In light of the proposed ClaimConnect service, DTC is considering retiring the
      APO process. If such a decision is made, then any corresponding changes would
      be the subject of a separate, subsequent rule filing with the Commission, as
      applicable. Until such time, Participants would have the option to settle stock
      loan and repo substitution payments via APOs or ClaimConnect.

ClaimConnect so Participants can settle cash claims in one centralized location, using the DTC system.[9]

As described below, ClaimConnect will be a validation and matching engine that continually monitors claims throughout their lifecycle in order to settle and close claims through DTC's settlement process. This continuous processing will allow for both the manual matching of claims (i.e., to Affirm or Affirmation) by ClaimConnect users ("Users") and systematic matching of two like claims by ClaimConnect based on the alignment of certain data elements (i.e., Auto-matching).

ClaimConnect will offer various claim processing functions, including end-of-day settlement of cash claims through systematic Securities Payment Orders ("SPOs") generated and submitted by ClaimConnect at set times intraday ("settlement time") on a settlement date.

Preparing to use ClaimConnect

To use ClaimConnect, a Participant need only request to be a "Claim Participant" by contacting its Relationship Manager. The Participant's account information at DTC will then be updated to indicate that the Participant is now a member of the service (i.e., a User).

Once permissioned, a Participant (now a User) will be able to engage ClaimConnect in two ways: (i) the ClaimConnect application via the MyDTCC portal, and (ii) the ClaimConnect Application Programming Interfaces ("APIs").[10]

---

[9]   Based on discussions with Participants, DTC estimates that ClaimConnect may process approximately 212,000 claims its first year, increasing to approximately 425,000 claims by its fifth year.

[10]   ClaimConnect APIs will provide Users with callable endpoints for creating and deleting data resources, as well as reading and updating data resource values.

If using ClaimConnect through the web application on the MyDTCC portal, Users will have access to all ClaimConnect functionality, including:

- submitting new claims;

- modifying claims submitted by the User;

- attaching documents to claims;

- Canceling claims submitted by the User;

- DKing and Un-DKing claims;[11]

- Affirming claims;

- utilizing the ClaimConnect Auto-match feature;

- establishing Approvals; and

- searching all claims submitted or received by the User.

Additionally, the ClaimConnect dashboard, which would be available via the MyDTCC portal, will offer a comprehensive overview of a User's claim activity, as well as provide daily and weekly email alerts on the status of claims, and the ability to pull reports and export data for manipulation and analysis.

Meanwhile, the ClaimConnect family of APIs will enable Users to automate the claim process. The APIs could be used separately for machine-to-machine processing of claims or in combination with the ClaimConnect web application through the MyDTCC portal. Although ClaimConnect functionality is more limited through the APIs (i.e., APIs

---

Information including specifications related to ClaimConnect APIs will be available to Participants at https://developer.dtcc.com or by navigating through the Portals menu on www.dtcc.com.

[11]   DK is shorthand for "Don't Know."

cannot Affirm claims, attach documents to claims, access the ClaimConnect dashboard or establish an Approval), Users will still be able to:

- submit new claims;

- modify their own claims;

- Cancel their own claims;

- utilize the ClaimConnect Auto-match feature;

- DK and Un-DK claims; and

- search all claims submitted or received by the User.

Each ClaimConnect function is described in greater detail below. Unless otherwise noted, the functions apply to both the ClaimConnect service via the web application and the APIs.

Submitting Claims

If overpaid or underpaid a cash entitlement due to a trading exception, a User will be able to create a claim against a claim counterparty through ClaimConnect. To create a claim, the ClaimConnect system will require certain data elements to be included, while other data elements will be optional.[12] Optional data elements will help Users differentiate similar claims.

To help expedite the claim process, Users will be able to attach a document to a claim, through the ClaimConnect web application in the MyDTCC portal, which can provide further details about the claim. Similarly, to more easily identify claims and

---

[12]   A sample list of required and optional data elements will be available in the proposed ClaimConnect Service Guide. A complete list of data elements and whether the data elements are required or optional will be available on the ClaimConnect DTCC Learning Center page.

expedite the settlement process, claim submitters should work with claim counterparties during the claim submission process.

Once all required data elements are entered and the claim is submitted, the claim is assigned a Claim ID.[13] If both parties to a claim submit their respective sides to the claim (i.e., a debit claim and a credit claim), and the two sides of the claim are Auto-matched, then the claim will be identified by the Claim ID associated with the debit side of the claim. The Claim ID of the credit side of the claim will be viewable in the claim's audit history.

Claim States

Once submitted, claims can exist in several different "states" depending upon the actions taken by the parties to the claim. Claims will be able to exist as Matched, Uncompared, DK-uncompared, Cancelled, or Closed.

Matched. A claim will be in a Matched state when it has been Auto-matched by the ClaimConnect system, or it has been Affirmed by the counterparty to the claim.

Uncompared. A claim will be in an Uncompared state, and will remain in such a state indefinitely, until an action is taken on it. This will occur when (i) a claim is initially submitted, without any further action taken on the claim; (ii) a claim is modified by the submitting party before the counterparty has acted on it; (iii) a claim is modified by the submitting party after it has been DK'd by the counterparty; or (iv) a claim is Un-DK'd, without any further action taken on the claim.

---

[13]   A Claim ID is a unique claim identification number that is assigned to a claim after all required data elements are entered and the claim is submitted.

DK-uncompared. A claim will be in a DK-uncompared state when it has been DK'd by the receiving counterparty, and the submitting party has not yet acted on the counterparty's DK.[14]

Cancelled. A claim will be in a Cancelled state when the submitting party determines that the claim is no longer needed. This will occur when the submitting party Cancels the claim before it has been acted on by the counterparty, or the submitting party Cancels a claim that has been DK'd by the counterparty.

Closed. A claim will be in a Closed state when a Matched claim settles or fails to settle, as part of DTC's end-of-day settlement process, by the close of the scheduled settlement day, as described below. Once a claim is either Matched or Closed, then it can no longer be modified, DK'd, or moved into an Uncompared state. If a correction needs to be made to a Matched or Closed claim, then a new claim will need to be submitted.

Validating Claims

Validation, the process of confirming claim data elements, will happen in two ways: (i) when a claim is Affirmed (i.e., by Affirming a claim, the receiving counterparty is confirming the claim's data elements), or (ii) when ClaimConnect Auto-matches two claims.

Once Validated, a claim will switch from an Uncompared to a Matched state. However, if certain data elements of the two sides of a claim do not agree, the claims

---

[14]   The DK-uncompared state is synonymous with an Uncompared status but will be distinguished in the proposed ClaimConnect Service Guide to better depict the workflow.

cannot be Validated and, thus, cannot be Matched.[15] Such claims will remain in an

Uncompared state until action is taken upon one or both claims.

Modifying and Canceling Claims

Users will be able to modify or Cancel claims. However, not all data elements

can be modified after submission,[16] and a claim can be modified if and only if:

- the modifying User is the User that submitted the claim; and

- the claim is Uncompared;

- the claim has not been Cancelled;

- the claim has not been Matched; or

- the claim has not been Closed.

A claim can be Cancelled if and only if:

- the Canceling User is the User that submitted the claim; and

- the claim is Uncompared;

- the claim has not been Matched; or

- the claim has not been Closed.

Once a claim is Cancelled, no further action can be made on the claim.

Affirming Claims

If a counterparty receives a claim and agrees with its details (i.e., the data

elements), then the counterparty could Affirm the claim. Affirming a claim will be a

---

[15]   A complete list of data elements that require matching will be available in the
       training materials found on the ClaimConnect DTCC Learning Center page.

[16]   Users will be able to refer to the ClaimConnect user guides and other training
       materials to determine which fields can be modified.

confirmation of the claim's data elements and would move the claim into a Matched

state. Once Affirmed, the claim will be settled on the Claim Settlement Date[17] or Settle

After Match,[18] whichever the parties agree to.

Affirmation will usually occur only when one side of a claim is submitted because

it affords the counterparty enough time to Affirm the claim. If both sides of a claim are

submitted, and the applicable data elements align, then Auto-match will likely Match the

claims before either party has time to make an Affirmation.

Claims can be Affirmed only:

- "manually" via the MyDTCC portal, not through an API;

- by the counterparty that received the claim; and

- when the claim is Uncompared; or

- when the claim is not Cancelled or Closed.

Once Affirmed, the claim will move to a Matched state and no further action will be

permitted on the claim.

DKing Claims

If a counterparty receives a claim that it does not know or does not agree with,

then it can DK the claim. Claims can be DK'd only by the User that received the claim

and when the claim is Uncompared or when the claim is not Cancelled or Closed. Users

---

[17]   The Claim Settlement Date is the date on which a claim will settle, as agreed upon
        by the claim parties.

[18]   Settle After Match is a settlement option where a Matched claim will settle at the
        next scheduled settlement time, as compared to a future settlement date. Both
        parties to the claim would need to select the Settle After Match option to be
        effective.

that DK a claim must provide a reason for the DK.[19] DKing a claim will return it to the

submitting party and change the state of the claim to DK-uncompared. The submitting

party will then have the option to modify the claim or Cancel it.

A claim DK'd in error can be Un-DK'd (i.e., reversed) by the party, and only that

party, that DK'd the claim. Once Un-DK'd, the claim will be in an Uncompared state.

Uncompared claims can be modified or Cancelled by the submitting party, or they can be

Affirmed or DK'd by the receiving party.

Searching and Reporting on Claims

ClaimConnect also will have both search and report functions. There will be two

types of searches: (i) Quick Search, to look up a specific claim using either the unique

Claim ID or Xref that the User assigned to the claim, and (ii) Advanced Search, to search

for a range of claim activity, including claims submitted by the User or by a counterparty.

From the search results, Users will be able to select a claim to view more detailed

information. ClaimConnect also will enable Users to view all of their claims as of a

given date (either on a current or historic day), which can then be downloaded into a CSV

(Comma-Separated Value) file format report.

Approving Claims

To assist Users with the management of their claims, ClaimConnect will offer an

Approval feature. The Approval feature will require certain actions on a claim to be

approved by a separate User employee, if the claim amount meets or exceeds a

---

[19]   Reasons for a DK include, but are not limited to, bad quantity, bad trade date, bad
         settlement date, bad amount, bad counterparty, duplicate record, invalid security
         identifier, need paperwork, need medallion stamp, settlement date difference,
         other bad data, or wrong event type.

predetermined dollar threshold set by the User, before that action can be completed. This feature is designed to enable Users to better monitor and manage certain cash debits that are leaving their account to satisfy claims.

Users will be able to activate the Approval feature by updating their ClaimConnect client profile. When doing so, the User must then set the dollar threshold that will trigger the Approval process. For example, if a User wants all debit claims equaling $100.00 or greater to be Approved, the User would set the Approval threshold to $100.00. Unfortunately, because of the manual aspects of the Approval feature, this feature will not be available via APIs.[20]

Once the Approval process is activated and a dollar threshold set, Approval by another User employee is required when the dollar threshold is met for claims that are new, being Affirmed, being modified, or being Cancelled after being previously Approved.

If a claim would be modified so that the dollar amount of the claim would no longer meet or exceed a previously established approval threshold, then the modification will not need to be Approved. Conversely, if a claim would be modified so that the dollar amount of the claim would now meet or exceed a previously established Approval threshold, then the claim will need to be Approved. If a previously Approved claim is modified but the claim amount remains unchanged (i.e., it still meets or exceeds the Approval threshold), then the claim will need to be re-Approved. Approval is not required to DK or Un-DK a claim.

---

[20]   Because APIs are a form of machine-to-machine or system-to-system communication, all necessary actions, such as the manual process of Approving a claim, must be completed prior to that communication.

New claims that are pending Approval will not have a claim state, and the counterparty to the claim will not see the claim until it is Approved. Once Approved, the claim will be moved to an Uncompared state.

In order to modify a new claim that is still pending Approval, the submitting User should reject the claim, make the modification, and resubmit it for Approval. If the claim has already been Approved, a modification may require re-Approval, if the Approval threshold is met.

Claim Approvers must be different than the User employee that created the claim. Approvers can view the details of the claim prior to Approving. If an Approver rejects a claim, the claim will need to be resubmitted for Approval or Cancelled.

Settling Claims

Matched claims will generate a ClaimConnect SPO for settlement on either the Claim Settlement Date, the next applicable daily settlement time if the Settle After Match indicator has been agreed to by both parties,[21] or the first settlement time on the next settlement day if the current day is a holiday or non-settlement date. The SPO will credit the payee Participant and debit the payor Participant the claim amount and will then be incorporated into DTC's end-of-day settlement process.

Although a ClaimConnect SPO will be similar to other DTC SPOs, it will be unique to ClaimConnect and its settlement process in several ways:

- the reason code for ClaimConnect SPOs will be used only for ClaimConnect cash movements;

---

21   The intraday settlement times for processing ClaimConnect SPOs will be available on the ClaimConnect DTCC Learning Center page.

- ClaimConnect SPOs will not be able to be instructed manually, as the instructions will be an automated process through the ClaimConnect service; and

- ClaimConnect SPOs will bypass RAD, meaning there will be no additional approval or rejection process for ClaimConnect SPOs.

ClaimConnect will Close the claim once it settles or fails to settle by the close of the settlement day. Closed claims cannot be reopened, modified, or processed again. If an adjustment is needed, a new claim will need to be submitted and processed.

ClaimConnect SPOs will be subject to DTC's Risk Controls (i.e., Collateral Monitor and Net Debit Cap) and will "recycle" (i.e., pend) if the SPO cannot satisfy those controls.[22] If a ClaimConnect SPO does not "make" (i.e., settle) by the end of the settlement day, the SPO will be "dropped" (i.e., Closed). Details on failed claims will be available using the Settlement Web activity inquiry function.

Changes to the Rules

To effectuate the establishment of the ClaimConnect service, DTC hereby proposes to adopt a new service guide – the ClaimConnect Service Guide – to explain the ClaimConnect service as described above. In addition, the existing Settlement Guide will be updated to (A) indicate that not all SPOs are subject to RAD prior to settlement, as ClaimConnect SPOs will not be subject to RAD, (B) make related clarifying changes

---

[22]   Because ClaimConnect SPOs will not be submitted for night cycle processing, they will not be subject to DTC's settlement optimization process. See Securities Exchange Act Release No. 87022 (September 19, 2019), 84 FR 50541 (September 25, 2019) (SR-DTC-2019-005).

regarding RAD, and (C) update certain address and contact information in the Copyright section of the Settlement Guide.

Implementation Timeframe

The ClaimConnect service, and associated guide, will become effective and available to Participants within 10 business days following Commission approval. DTC will announce the effective date of the proposed changes by Important Notice posted to its website. A fee associated with Participants' use of ClaimConnect will be the subject of a separate, subsequent rule filing with the Commission. If that fee filing has not been completed by the time the ClaimConnect service becomes effective and available to Participants, then Participants will not be charged a fee for their use of ClaimConnect until that filing is completed. The proposed changes the Settlement Service Guide will become effective upon Commission approval.

2.   Statutory Basis

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.[23] DTC believes this proposed rule change is consistent with that provision of the Act, and the rules and regulations thereunder applicable to a registered clearing agency.

As described above, the ClaimConnect service will be an optional service that was developed based on discussions with Participants. ClaimConnect would enable Participants to bilaterally match and settle cash claim transactions at DTC. While settlement of cash claims occurs today, it does so away from DTC, in a dispersed fashion.

---

[23]   15 U.S.C. 78q-1(b)(3)(F).

ClaimConnect would establish a centralized and coordinated location for Participants to settle such claims and, as described above, include various functionality, such as a web application, APIs, an Auto-match feature, an Approval function, and final settlement via SPOs.

Although a cash claim transaction itself is not a securities transaction, it is the biproduct of a securities transaction and a Corporate Action event on the securities. By offering a centralized and coordinated location for Participants to settle cash claims, with various functionality, the ClaimConnect service is designed to help Participants more easily settle cash claim activity associated with a securities transaction. Similarly, by updating the existing Settlement Service Guide to indicate that not all SPOs will be subject to RAD (since ClaimConnect SPOs will not be subject to RAD, as explained above), the guide will help Participants better understand the clearance and settlement processes.

Finally, by updating the Settlement Guide with more current information about where Participants and others may direct inquiries about the DTC service guides, the Settlement Guide will provide the most up-to-date information to help Participants submit questions or comments about the service guides.

Therefore, for the above reasons, DTC believes that the proposed rule change will help foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.[24]

---

[24]   Id.

(B)   Clearing Agency's Statement on Burden on Competition

DTC does not believe that the adoption of the proposed service guide to establish the ClaimConnect service or the proposed modifications to the existing Settlement Guide will have any impact on competition.

As described above, the ClaimConnect service will be an optional service (i.e., Participants will have the option to either use ClaimConnect or continue to settle cash claims away from DTC). Although DTC believes settling a cash claim via ClaimConnect will offer benefits over settling such claims away from DTC, those benefits would be available to all Participants that choose to use the service, including both the credit and debit sides of any single claim. Meanwhile, the proposed changes to the Settlement Guide would simply (A) account for the processing of ClaimConnect SPOs, with respect to RAD, (B) make related clarifying changes regarding RAD, and (C) update certain address and contact information in the Copyright section of the Settlement Guide.

For these reasons, DTC does not believe that the proposed rule change will have any impact on competition.

(C)   Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

DTC has not received or solicited any written comments relating to this proposal. DTC will notify the Commission of any written comments received by DTC.

III.   Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A)   by order approve or disapprove such proposed rule change, or

(B)   institute proceedings to determine whether the proposed rule change

should be disapproved.

IV.   Solicitation of Comments

Interested persons are invited to submit written data, views and arguments

concerning the foregoing, including whether the proposed rule change is consistent with

the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form

    (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number

    SR-DTC-2020-012 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange

    Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-DTC-2020-012. This file number

should be included on the subject line if e-mail is used. To help the Commission process

and review your comments more efficiently, please use only one method. The

Commission will post all comments on the Commission's Internet website

(http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent

amendments, all written statements with respect to the proposed rule change that are filed

with the Commission, and all written communications relating to the proposed rule

change between the Commission and any person, other than those that may be withheld

from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of DTC and on DTCC's website (http://dtcc.com/legal/sec-rule-filings.aspx). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2020-012 and should be submitted on or before **[INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[25]

J. Matthew DeLesDernier,

Assistant Secretary.

[FR Doc. 2020-23260 Filed: 10/20/2020 8:45 am; Publication Date: 10/21/2020]

---

[25]   17 CFR 200.30-3(a)(12).